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DATE Jan. 12, 1955

COPY NO. 5

OPERATIONS COORDINATING BOARD

Washington, D.C.

PROGRESS REPORT ON NSC 171/1 (INDONESIA)

REFERENCE; NSC Action No. 962

OCB FILE NO. 30

NSC review(s) completed.

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This document contains information affecting the national defense of the United States, within the meaning of the espionage laws, Title 18, Sections 793 and 794, U.S.C., the transmission or revelations of which in any manner to an unauthorized person is prohibited by law.

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

January 24, 1955

MEMORANDUM FOR THE OPERATIONS COORDINATING BOARD

SUBJECT: Progress Report on NSC 171/1 (Indonesia)

The attached Operations Coordinating Board Progress Report on NSC 171/1, "United States Objectives and Courses of Action with Respect to Indonesia," dated January 12, 1955, was noted by the National Security Council on January 20, 1955 (NSC Action No. 1310).

The previous draft of this report dated January 7, 1955 is obsolete and may be destroyed in accordance with the security regulations of your agency.


Elmer B. Staats
Executive Officer

Attachment:

Memo to the Executive Secretary, NSC
from the Executive Officer, OCB,
subject as above, dated 1/13/55, with
attachment as listed.

OCB File No. 30

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OPERATIONS COORDINATING BOARD
Washington 25, D. C.

January 13, 1955

MEMORANDUM FOR Mr. James S. Lay, Jr.
Executive Secretary
National Security Council

SUBJECT: Progress Report on NSC 171/1 (Indonesia)
(Policy Approved by the President, November 20, 1953)

There is attached the second progress report by the Operations Coordinating Board on NSC 171/1, "United States Objectives and Courses of Action with Respect to Indonesia," covering the period June 1, 1954 through November 30, 1954. The report was approved by the Operations Coordinating Board on January 12, 1955.

The following significant developments subsequent to November 30, 1954 were noted by the Board:

1. Smallholder Rubber Policy

On December 9, 1954, the National Security Council in NSC Action No. 1284^c decided that the OCB should reconsider implementation of NSC 5417/3 (U.S. Rubber Policy) in approximately six months in the light of the situation then existing. (Paras. 7 and 25 of Summary, and para. 20^a of Annex "A").

2. Review of U.S. Far East Policy

On December 22, 1954, the President approved NSC 5429/5, including a new section, paragraph 5^e, relating to means of preventing Indonesia from falling under Communist control. NSC 5429/5 will guide the implementation of NSC 171/1 modifying the latter where inconsistent, pending a review by the NSC of NSC 171/1. (Para. 19 of Summary).

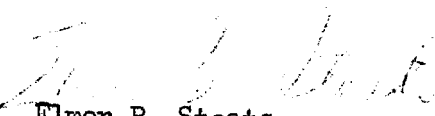
3. Afro-Asian Conference

On December 29, 1954, announcement was made of an Afro-Asian Conference to be held in Bandung, Indonesia in April 1955. Due to the inclusion of Communist China in the list of prospective

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participants this conference has become a much more concrete problem than it was at the time the report was written. It is recognized that the proposed conference will include representatives and consider issues wider in scope than those under NSC 171/1; it is reported in this paper because of the initiative of the Indonesian Government and because the conference will presumably be held in Indonesia. (Paras. 5 and 24 of Summary and para. 16 of Annex "A".)


Elmer B. Staats
Executive Officer

Attachment:

Progress Report on NSC 171/1
(Indonesia) dated 1/12/55.

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Ambassador Cumming's consultation in Washington during parts of September, October, and November, permitting him to talk to the President, Vice President, Secretary of State, Senate Foreign Relations Sub-Committee on the Far East, Defense representatives, and many others should increase the Ambassador's ability to exert personal influence on Indonesian leaders. Foreign Minister Sunario, Dr. Djuanda (Head of the State Planning Bureau), the Governor of the Bank of Indonesia, and a number of other leading officials visited the U.S. during the period of this report. Meetings were arranged between these leaders and Americans, both official and non-official which, it is believed, have exerted a favorable influence.

Para. 19. - "Continue efforts to influence Indonesian government officials to oppose Communist infiltration and subversion."

This principal has continued to guide activities of all departments and agencies of the U.S. Government in the day-to-day conduct of relations with Indonesia and in actions taken pursuant to NSC 171/1.

Para. 20. a. - "Explore urgently the practicable means of assisting Indonesia in regard to its important economic problems, with particular attention to the net advantage of helping Indonesia find markets for rubber and tin, and explore the possibility of assisting the Indonesian Government in improving the quality of the rubber produced by small holders."

NSC Action No. 1243b, adopted the recommendations of the OCB contained in NSC 5417/3 subject to a determination that the program will not adversely affect the sale of U.S. Government-owned synthetic rubber plants. The Secretary of the Treasury recommended that action on the program be deferred for approximately six months. The OCB agreed that certain informal discussions with the Indonesian Government with respect to assistance for the smallholder rubber industry and normal study and survey activities can be continued but that no definite action or commitment in response to a specific request from the Indonesian Government would be made within the six-month period without further reference to the OCB.

As a necessary preliminary step towards possible implementation of NSC 5417/3, FOA plans to augment its staff in Djakarta by a rubber production and marketing specialist who will devote a period of time estimated at six months in studying the precise steps that would be required in any joint United States-Indonesian attack on the basic problems affecting the smallholder rubber producers.

Para. 20. b. - "Recognize the obligation of the U.S. Government, under existing contracts for the purchase of tin, by making a reasonable offer to Indonesia with the intent of reaching agreement on a mutually satisfactory price for deliveries in the third year of these contracts."

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The third and final year of the U.S. contract to purchase 18-20,000 tons of Indonesian tin will be completed in March 1955. Tin accounts for approximately 10 per cent of Indonesia's foreign exchange earnings. On the basis of present information it is expected that Indonesia will be able to dispose of its tin through normal commercial channels.

Para. 21. - "Take appropriate actions to strengthen friendly relations between Indonesia and the U.S."

This principle continues to guide activities of all departments and agencies of the U.S. Government in the day-to-day conduct of relations with Indonesia and in actions taken pursuant to NSC 171/1.

Para. 22. - "In cooperation with the Indonesian Government, continue U.S. economic and technical assistance, both loan and grant, as appropriate, with special emphasis on the diversification of production to decrease excessive dependence on rubber."

FOA now has an almost entirely new administrative staff in Djakarta which has been effective both in stimulating discussions with the Indonesian Government for the effective utilization of the technical cooperation program and in submitting analyses of the existing situation with recommendations for United States action. It is estimated that the work of this staff has been effective in advancing the planning for the current program to perhaps six months ahead of the situation existing at this time a year ago.

FOA with the Department's support is seeking an additional \$3.3 million for its FY 1955 program of which \$1.3 million would be utilized for an expanded malaria control program.

The FOA mission recommendation for fiscal year 1956 includes \$8 million for the technical cooperation program and a \$60 million program of economic development assistance. This recommendation is submitted on the assumption that economic aid will be granted during fiscal year 1956 to a government which has a more friendly orientation towards the United States than has the Ali Cabinet.

All funds available in fiscal year 1954 were obligated and the procurement and training participants portions of the program are proceeding in good order.

Complete concurrence with the Indonesian officials on the fiscal year 1955 program can be anticipated quickly as soon as the Mission can be advised of the amount of funds which will be available in the current year. About half of the projects in the current year can be obligated promptly thereafter, with the balance requiring an additional Washington clearance.

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The FOA program objectives include assistance in accordance with expressed plans of the Government of Indonesia toward diversification of the Indonesian economy. Diversification should extend not only to agricultural production, including the production of cacao, sisal, and other foods and fibers but also to industrial production, including the production of some consumers' goods now being imported. Severe difficulties encountered include the lack of trained Indonesian personnel and shortage of capital for industrial development, the inadequacy of basic facilities, the "Indonesianization" program of the recently ousted Minister of Economic Affairs, and the poor organization and dubious attitude of that Ministry's Department of Industry. FOA efforts in the field of technical vocational education, and in the training of industry personnel, are directed toward the raising of the level of technical skills. Efforts are being made by USOM to obtain better understanding of our objectives with the Department of Industry. The smallholder rubber program, if implemented, will furnish an opportunity for FOA to further encourage agricultural diversification.

Contracts with the University of California and Tuskegee Institute were signed in July, and the J. G. White contract extension until December 31, 1955 was signed in August.

Indonesia has expressed interest in acquiring surplus agricultural commodities under PL 480.

At the request of the Indonesian Government, the IBRD and IMF are planning to send a survey mission to Indonesia in early 1955. The head of the Indonesian Planning Bureau, Dr. Djuanda, expressed interest in meeting part of Indonesia's development capital needs through IBRD loans.

Para. 23. - "In cooperation with the Indonesian Government, assist in creating an adequate climate for foreign investment in Indonesia."

A special committee has been assigned to prepare legislation implementing the Indonesian Government's statement on foreign investment of last year. It is doubtful that any concrete legislation will be passed before elections.

The American oil companies, Stanvac and Caltex, have in recent months negotiated satisfactory agreements on the division of taxes and the remittance of profits, in return for which they have made certain commitments on additional capital investment. Agreements on further concessions for petroleum exploration have not yet been secured by these companies, however, to the best of the Department's knowledge.

The Department has provided the Indonesian Government with a draft FCN Treaty of the type which we feel might be suitable. The Chief of the Economics Section of the Indonesian Foreign Office has studied this draft and told our Embassy that he foresees no insurmountable difficulties in it. We do not anticipate very rapid progress in the conclusion of this treaty but we believe it is worth at least keeping it alive pending elections.

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Indonesian Foreign Minister Indonesian failure to utilize these spaces, and requested an inquiry. No conclusive reply has yet been received. The Department is awaiting Ambassador Cumming's return to Djakarta to take this question up again with the Indonesian Government.

Good progress is being made on implementing the Police Administration Training project and additional funds are contemplated in the expanded fiscal year 1955 program. However, the chief technician was forced to resign for medical reasons and a replacement is being sought.

Para. 27. - "Strengthen the U.S. information program, and the exchange of persons, including potential leaders in labor, industry and other fields."

The USIA budget for fiscal year 1955 has been increased to \$525,185. Mission operating funds were increased by \$23,186 over fiscal year 1954, and media support was increased \$12,000 to accommodate new and expanded activities designed to strengthen the program.

A new reading room was opened on October 1 in Padang to serve the important area of west-central Sumatra where the program has not been able to operate directly until now. The reading room is staffed entirely by local employees and has been received enthusiastically in the area. It will serve for several months as a pilot operation which, if it proves effective and satisfactory, will be duplicated in Menado, Celebes, another center of political, cultural and educational importance.

USIS Djakarta is meeting a somewhat lessened resistance to acceptance of VOA material by Radio Republic Indonesia and is undertaking to exploit the increased receptivity by using a series of locally produced package programs for presentation to RRI.

In answer to requests from the Foreign Minister and other government officials, the production of the daily press bulletin has been resumed after being discontinued for nearly a year. The complete press bulletin is now being distributed in English to government officials, political and educational leaders, editors and writers. More important and timely items are taken from the Wireless File for issue in Indonesian as press releases.

To meet the increasing number of requests from priority audiences the press run of American Miscellany, the bi-lingual post monthly magazine was increased from 40,000 to 50,000 copies. The magazine continues to have the largest circulation and readership of any periodical in Indonesia. Production of pamphlets both locally and

at the Manila reproduction center also has been stepped up to meet the demand from target groups.

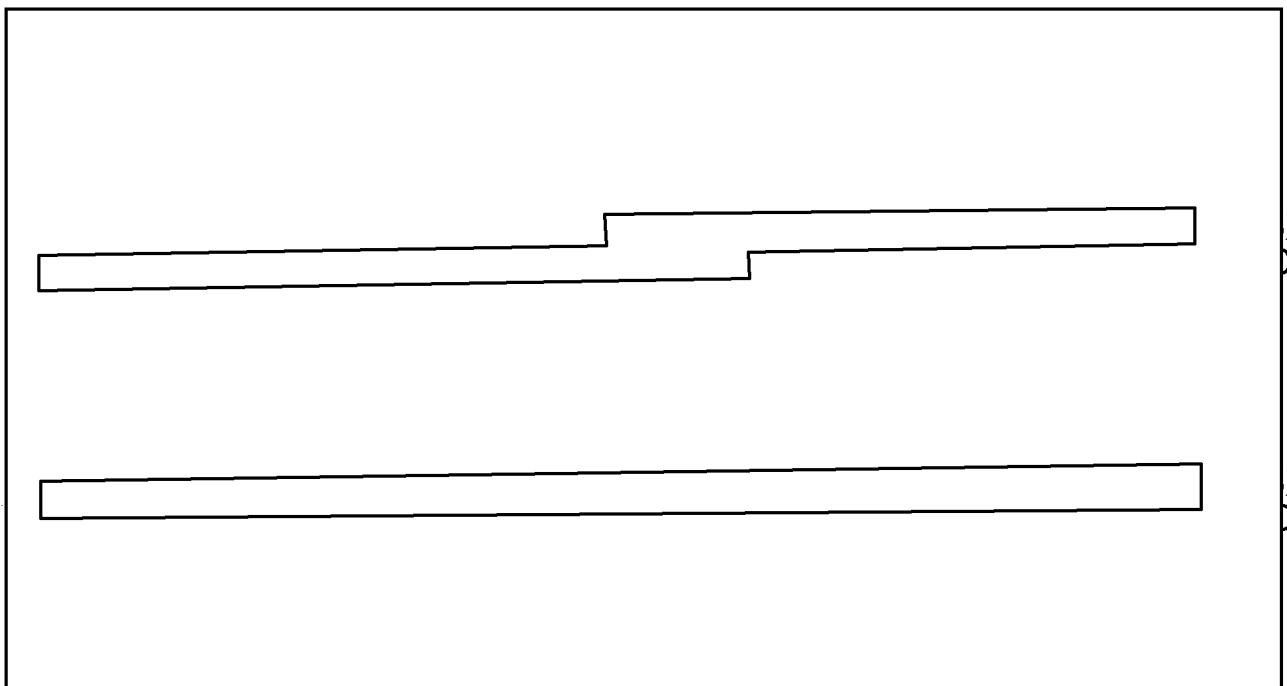
The Information Media Guarantee agreement, which would stimulate the import of American books has not yet been signed although all other negotiations appear to be completed. The number of American books available in libraries throughout the country is increasing as a result of a large-scale presentation program which is putting books and periodicals into a number of libraries through the avenue of the Government's Office of Public Library Service.

As the Masjumi has become more actively and openly anti-Communist the party is showing increased willingness to seek assistance from USIS. The post has made available films and pamphlets for Masjumi meetings, it supplies party publications with anti-Communist feature material, furnishes background information to party leaders, and is assisting Masjumi in the publication of strongly anti-Communist books. Increasing public interest in Communism accounts for a rise in the limited circulation of the magazine "Problems of Communism" and somewhat easier placement of anti-Communist press materials.

USIS Djakarta has been directed to report on plans and operations aimed at favorably influencing the proposed general election.

FOA obligations for the fiscal year 1954 program included 223 training grants including 20 Police Administration trainees to go to the Philippines.

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